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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of)

)
Simplification of the)
Depreciation Prescription)
Process)

CC Docket No. 92-296

**BELL ATLANTIC COMMENTS ON
PROPOSED ACCOUNT LIFE AND SALVAGE RANGES**

The Bell Atlantic telephone companies¹ ("Bell Atlantic") hereby respond to the Order Inviting Comments (rel. Nov. 12, 1993) ("OIC") on the Commission's proposed projected life and future net salvage ranges for selected depreciation accounts. While the choice and the terms of the Commission's decision to adopt the Basic Factor Range Option for depreciation simplification² run counter to the Commission's stated goals of simplification, savings and flexibility;³ the OIC offers the opportunity for the Commission quickly to establish forward looking ranges that will encourage technology deployment and will not inhibit local exchange carrier ("LEC") competitiveness. In order to take advantage of that opportunity, the Commission immediately should set ranges for all

¹ The Bell Atlantic telephone companies are the Bell Telephone Company of Pennsylvania, the four Chesapeake and Potomac telephone companies, the Diamond State Telephone Company, and New Jersey Bell Telephone Company.

² *Simplification of the Depreciation Prescription Process*, Report and Order, CC Docket 92-296 (rel. Oct. 20, 1993) ("Depreciation Order").

³ See Petition of Bell Atlantic for Reconsideration, CC Docket No. 92-296 (filed Dec. 6, 1993) ("Bell Atlantic Petition").

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accounts, and set the bottom end of the projected life range consistent with the recognition of advanced technology deployment.

1. **The Commission should establish ranges for all accounts as soon as possible.**

In order for the LECs to reap any benefit from depreciation simplification, the Commission must move quickly to set as many ranges as possible. The Commission recognized this need and committed to "establish ranges for *all accounts*, to the extent feasible and *as soon as possible*."⁴ Without ranges in place, any benefits from depreciation simplification may not be realized until the next century.⁵ Despite this recognized and urgent need, the Commission has failed to propose ranges for the larger accounts.⁶ These missing accounts make up approximately 70% of Bell Atlantic's plant.

The OIC offers no explanation as to why established ranges cannot be set for all accounts, other than to repeat the Depreciation Order's admonition that "technical problems make it difficult to establish ranges for certain accounts."⁷ The Depreciation Order, however, referred to an isolated problem in a single account.⁸ The OIC offers no justification for not having ranges in place for all accounts in time for those companies

⁴ Depreciation Order, ¶ 6 (emphasis added).

⁵ See, e.g., Bell Atlantic Petition at 4-5.

⁶ OIC, 3 n.8 (nine complete and three partial accounts).

⁷ OIC, ¶ 4.

⁸ Depreciation Order, 27 n.110.

scheduled for triennial represcription in 1994. Bell Atlantic urges the Commission take every opportunity to set ranges for all accounts as quickly as possible.

2. Ranges set by the Commission should be forward looking.

Any benefits of approved basic factor ranges will not be realized if the ranges are not set on a forward looking basis. Failure to do so could force LECs to choose among abandoning the ranges and filing full depreciation documentation; slowing the pace of technology deployment; or filing within the ranges and thereby potentially creating future reserve shortfalls that will lead to significant impairment of future financial performance.

The present process has yielded significant lags between replacement of capital and depreciation of capital. In the Depreciation Order, the Commission acknowledged that depreciation rates "may have lagged behind changes in the telecommunications market."⁹ An example of this historic overestimation of useful service life is Bell of Pennsylvania's cross-bar switch account. During the 1979 triennial review of its accounts, Bell of Pennsylvania argued for more rapid depreciation of this account due to expected replacement by the then state-of-the-art 1A ESS switches. While depreciation was significantly accelerated from the previous prescription,¹⁰ Bell of Pennsylvania's request for even faster depreciation was met with skepticism. In hindsight,

⁹ Depreciation Order, ¶ 51.

¹⁰ The average replacement year was accelerated from 1993 to 1988.

the revised depreciation was actually understated by about five years.

This pattern of using excessively long service lives during the early and mid-life of technology with a correction at the end has been the rule and not the exception. Today's technological, government and competitive pressures to speed modernization will only exacerbate this historic overestimation. Most recently the Commission was confronted with the need to accelerate the recognition of depreciation for United Telephone-Southeast based on United's compliance with its state commission's technology deployment plan.¹¹ While the Commission denied exogenous treatment for the amortization costs relating to the "premature" retirement of four switches, Commissioner Barrett voiced concern that LECs be allowed maximum flexibility in setting ranges:

[C]onsistency and equity dictate that endogenous treatment of depreciation rate changes be accompanied by the grant to carriers -- in particular local exchange carriers (LECs) regulated under price caps -- of as much control over depreciation rates and expense as is feasible, consistent with prevailing competitive and regulatory circumstances. In my view, this highlights the need for the Commission to be aggressive in pursuing reform of its depreciation practices and to ensure that those practices not lag significant market and technological developments.¹²

The pace of technological change and competitive pressure for that change is only increasing. Failure to heed Commissioner

¹¹ *Petition for Waiver of the Commission's Rules to Recover Network Depreciation Costs*, Order, FCC 93-522 (rel. Dec 8, 1993) ("United Order").

¹² *Id.*, Separate Statement of Commissioner Andrew C. Barrett.

Barrett's warning will result in undermining the intended benefits of depreciation simplification or undermining the pace of technological deployment.

The delay in recognition of depreciation expense caused by the historic overestimation of useful service life has been recovered through depreciation catch-up and amortizations at the end of the asset-life. The pressure of increasing competition will not allow catch-up in the future and LECs that overestimate the life of their plant will see financial results impaired. Because competitive markets will not allow LECs to recover under-depreciated plant, the mistakes of the past can not simply be repeated without putting LECs at a severe economic disadvantage. If the Commission truly intends to promote simplified depreciation filings, the ranges for accounts must include more aggressive depreciation schedules.

3. The low end of the projection life range for Metallic and Non-Metallic Cable accounts should be revised downward.

In order to avoid lagging market and technological developments, all of the Commission approved service life ranges should be reevaluated and the low end of the ranges should be expanded downward where historic overestimation and more recent competitive and technological pressures require a shorter useful life. However, at a minimum, the Commission must move down the low end of the range for the four cable accounts specified in the OIC.

The OIC proposed a 25 year minimum for the low-end of the projected life range for underground copper cable.¹³ While such a

¹³ OIC Appendix (Account 2422, Underground Cable, Metallic)

range may have been appropriate at one time, current technology trends support a much shorter time period. AT&T, which is free to use simplified procedures to set its depreciation levels without reference to basic factor ranges,¹⁴ has a projected life of less than ten years for this account.¹⁵ It is clear that through the proposed basic factor range, once again the Commission is in danger of depreciation lagging significant technological and market developments.

In addition to purely market driven pressures, LECs may also accelerate plant obsolescence based on regulatory commitments. The Commission has recognized that state directed upgrades in technology are not unusual.¹⁶ Several states in Bell Atlantic territories have legislation or regulatory plans that require network upgrades.

These upgrades could potentially accelerate replacement of copper plant in the ground. For example, the New Jersey Board of Regulatory Commissioners has ordered a New Jersey Bell commitment to full broadband capability, statewide, by the year 2010.¹⁷ While

¹⁴ Depreciation Order, ¶ 92.

¹⁵ See *The Prescription of Revised Percentages of Depreciation Pursuant to the Communications Act of 1934*, Memorandum Opinion and Order, AAD 91-50 (rel. Jan 31, 1992); Letter from Kenneth P. Moran, Chief Accounting and Audits Division to Ms. Karen J. Harrison, Regulatory Vice President, American Telephone and Telegraph Company (May 15, 1991).

¹⁶ United Order, ¶ 33

¹⁷ *The Application Of New Jersey Bell Telephone Company For Approval Of Its Plan For An Alternative Form Of Regulation*, Decision and Order at 97, Docket No. TO92030358 (N.J. Bd. of Reg. Comm'rs April 14, 1993).

the New Jersey Bell commitment is not tied to any one technology, New Jersey Bell's technology roll-out plan, entitled Opportunity New Jersey, contemplates deployment of fiber-to-the-curb in order to achieve the broadband capability targets. Such deployment could dramatically accelerate the need to depreciate the existing copper plant.

Attachment 1 hereto, is an illustrative graph which relates projection life of copper cable to surviving investment. Even under the OIC's lower bound of 25 years, the plant would not be fully depreciated until approximately 2030. Using a projection life of 15 years for a lower bound -- still more than five years longer than AT&T's -- the anticipated demise of copper cable would be approximately 2015. In light of New Jersey and other state's requirements, as well as AT&T's independent projections, 15 years or less is a much more appropriate lower bound for this account.¹⁸

The non-metallic cable accounts also have minimum projection life ranges of 25 years in the OIC.¹⁹ These accounts currently contain far less plant than the metallic cable account²⁰, but are growing rapidly. To encourage growth in these accounts, the

¹⁸ As with all depreciation ranges, a company will only be authorized to take advantage of simplified filing for faster depreciation of plant if that level of depreciation is consistent with the company's own projections.

¹⁹ OIC, Appendix (Account 2421, Aerial Cable, Non-Metallic; Account 2422, Underground Cable, Non-Metallic; and Account 2423, Buried Cable, Non-Metallic).

²⁰ For companies represeting in 1993, metallic cable accounts are more than 14 times larger than the non-metallic cable accounts.

Commission must avoid under-depreciation. AT&T's projected useful life for each of these accounts -- 20 years -- is five years less than the bottom of the proposed range. If the Commission inhibits the LECs from similar depreciation schedules for these accounts, it could stifle future technology investment. Conversely, if the Commission were to set ranges too low, there would be little negative consequence given the relatively small size of these accounts, the relative ease in setting depreciation above the range, and the opportunity for later fine tuning of the range. The Commission risks little by lowering the ranges²¹ and encouraging continuing network investment.

Conclusion

For the foregoing reasons, the Commission should issue ranges for *all* accounts as soon as possible. The ranges in existing and future proposals should be evaluated based on forward looking expectations of useful lives. In its reevaluation of useful lives of the proposed accounts, the Commission should, at a minimum, reduce the lower end of the ranges by ten years for the metallic accounts and five years for the non-metallic.

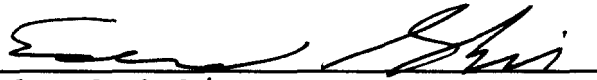
²¹ The upper end of the range will still allow use of the ranges for those companies with slower plant replacement. At a minimum, moving the lower end of the range to match AT&T's 20 year projected life will open up the range to more companies.

Respectfully submitted,

The Bell Atlantic Telephone Companies

By Their Attorney

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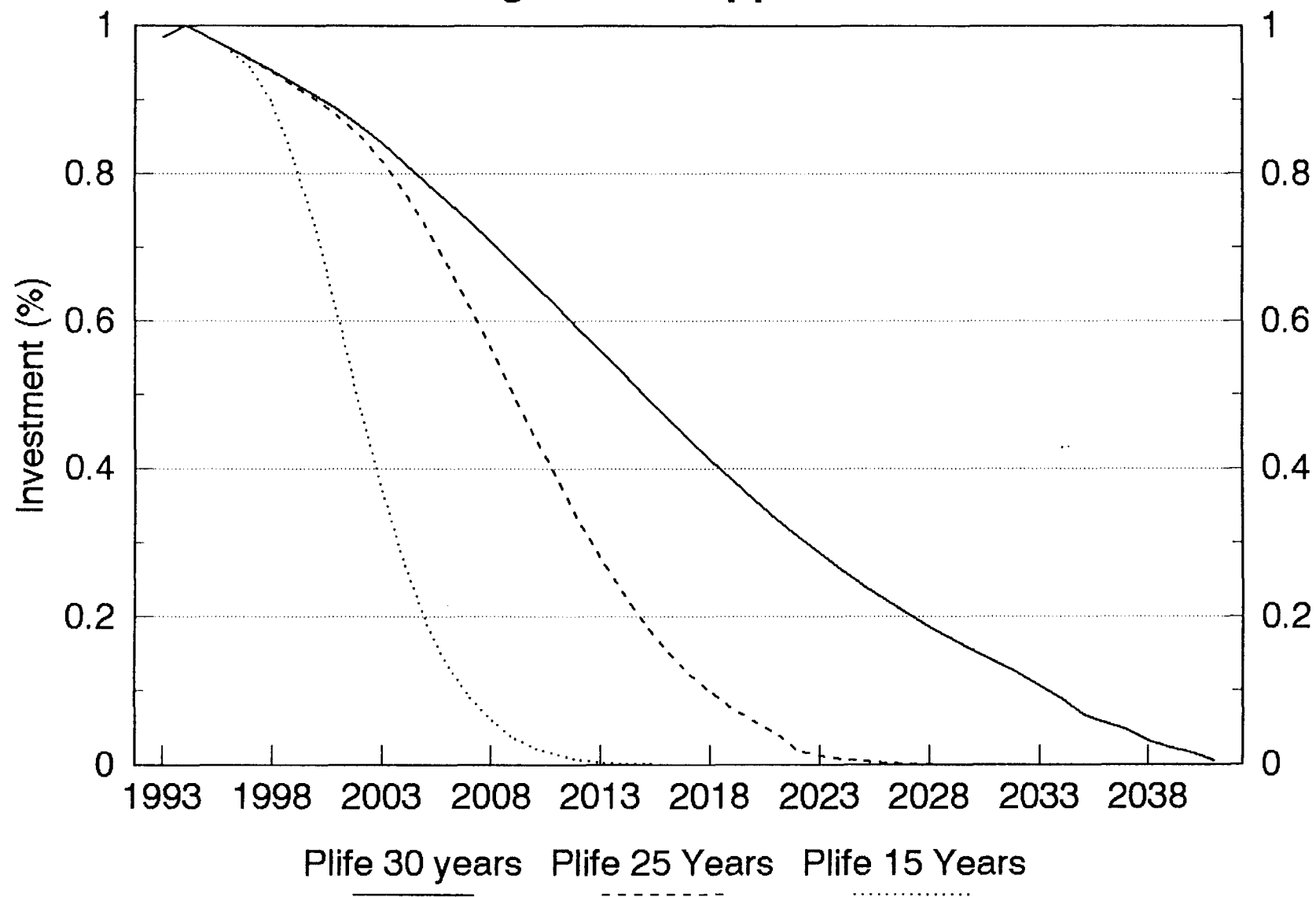

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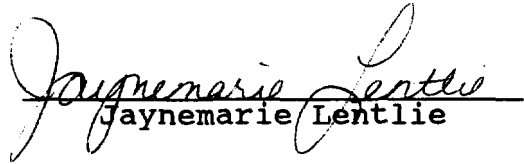
ATTACHMENT 1

Underground Copper Cable



CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing "Bell Atlantic Comments on Proposed Account Life and Salvage Ranges" was served this 17th day of December, 1993, by first class mail, postage prepaid, on the parties on the attached list.


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